

**Testimony of
George B. Kitchens, General Manager and CEO
Joe Wheeler Electric Membership Corporation
Trinity, AL**

**Before the Tennessee Valley Authority
Board of Directors**

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Hopkinsville, Kentucky**

Mr. Chairman, Members of the TVA Board of Directors, my name is George B. Kitchens. Thank you for granting me this opportunity to participate in this hearing. I am testifying this morning as General Manager & CEO of Joe Wheeler Electric Membership Corporation, a TVA Distributor, which serves over 41, 000 customers in Lawrence and Morgan Counties in North Alabama. My business address is P.O. Box 460 Trinity, AL 35673. In addition to my duties at Joe Wheeler, I currently serve as Chairman of the North Alabama Public Power Association, NAPPA, and as a member of the Tennessee Valley Public Power Association Board of Directors, TVPPA. I will attempt, in these remarks, to represent or at least comment on the points of view of all of my constituents.

North Alabama has a broad range of distributors. Huntsville Utilities is among the largest distributors in the TVA system and Courtland is the smallest of the TVA distributors. There is also a wide range of cooperative distributors in NAPPA. None of the NAPPA distributors have chosen to give notice to TVA of their intent to buy power elsewhere. However, some distributors have been frustrated enough that they have shopped for other supplies. Others have stated a desire to have a portion of their power requirements provided by others. One distributor has, at times, investigated the possibility

of building its own generation. Several of the NAPPA municipal utilities have extensive experience in buying natural gas in the deregulated natural gas market and have a good understanding of how that market operates. Most of the NAPPA distributors are very satisfied with the service and reliability that we enjoy as TVA customers and wish to see this same level of high-quality service continue. Many in our group are interested in and have expressed a desire to enter into a long-term contractual agreement with TVA that would be fair to all parties.

TVA and its distributors are at a very important crossroad in our evolution. The electric industry at the national level and in the Valley is undergoing significant change. This board has recently expanded and is in the process of determining its role and the role of TVA's officers. Several distributors have given notice to TVA of their intent to cease buying power from TVA. At the national level, we have seen experiments in deregulation, most of which have had poor results. It is my belief that in these changing times that TVA and its distributors should work together proactively to craft changes in the Tennessee Valley that result in a financially healthy TVA, continued strong economic growth in the Tennessee Valley and that meet the needs of the distributors. Working together to craft solutions that work in the Tennessee Valley is or much preferred to any solution created and crafted outside and forced upon us. In other words, we need to work together to solve our issues rather than waiting for people outside the Valley, perhaps in Congress or at the FERC, Federal Energy Regulatory Commission, to pass legislation or create rules that may not adequately address issues unique to our region.

Perhaps the best place to begin the evolutionary process is to appropriately address the issue of transmission access. TVA and this Board have been reluctant to grant transmission access to noticing distributors for a variety of reasons, some good and some not so good. The issue of the "TVA Fence" has been raised as a reason not to grant transmission access without legislative authority. The fence is a fence and is not a solid wall. Each day perhaps millions of kilowatts hours pass through the fence, both to and from interconnected utilities. The fence is not a solid wall. Solutions to the issue of transmission access crafted inside the Valley, by working together, will serve this region better than something developed in Washington.

At present, neither Joe Wheeler EMC nor any distributor in North Alabama have given TVA notice of their intent to buy power from other suppliers. Several of our distributors are situated such that they could very easily obtain power from other suppliers. As for JWEMC, we have no current plans to give notice to TVA and have reasonably satisfied with the service that we get from TVA. In the early days of TVA, out of necessity, TVA had what might best be described as a paternal relationship with its distributors. Today, some 73 years later, both TVA and its distributors have evolved. TVA has become a world class operator of generation and transmission facilities. Distributors have evolved and become, for the most part, sophisticated, professional organizations. As in all parent-child relationships, sooner or later the children grow up and want to eat at the same table as the grown-ups. This is the sort of change that has led us to this discussion today.

Members of the Board, I support a contractual solution to the issue of transmission access. The framework developed by the Steering Committee of the Tennessee Valley Public Power Association is a sound approach to resolving the issue of transmission access. As I've already mentioned, solutions crafted in the Tennessee Valley by TVA and the distributors work better for the consumers in this region than a legislative or regulatory solution provided from Washington. The TVPPA Framework is fair to all parties and is reasonable, measured and thoughtful in its approach to resolving the key issues.

1. TVPPA's Framework supports a financially healthy TVA. TVA's continued financial health is of vital importance to all of the distributors. It benefits all of us if TVA is able to continue to obtain capital at attractive rates.
2. The TVPPA Framework fairly addresses issues of interest of both noticing and non-noticing distributors. Noticing distributors need access to the TVA transmission network. The TVPPA solution provides that noticing distributors:
 - Have transmission access for the entire load.
 - Noticing distributors relinquish all preference rights to the output of current and future TVA generation assets. However, noticing distributors may continue to buy power and energy from TVA at prevailing system average rates for the remainder of their contract terms.
 - To mitigate the potential impacts of any fixed costs being unduly passed on to non-noticing distributors, noticing distributors will seriously consider buying power on a short-term basis from TVA at the expiration of their contract notice period.

- Noticing distributors relinquish all other non-transmission related services.
- Transmission services would be provided to all distributors on a non-discriminatory basis at just and reasonable rates.
- Current noticing distributors would be granted a one-time grace period to rescind their notices and to receive the same benefits, terms and conditions developed for future noticing or non-noticing distributors. No grace period would be allowed for future noticing distributors.
- Transmission access and partial requirements power supply would be made available for all distributors on a ratable departure basis. Partial requirements would include provisions for distributor self-generation or purchases from a supplier other than TVA.
- TVA and the distributors through TVPPA shall continue good-faith efforts to negotiate of a mutually beneficial long-term relationship. These elements shall include but not be limited to the Fuel Costs Adjustment, generation ownership and long-term contracts.
- TVA and TVPPA would, if absolutely needed, work together to craft legislation to that would amend the TVA Act and modify the fence to allow sales outside of the 14 interconnected utilities on a megawatt hour for megawatt hour basis. As distributors leave the TVA system in whole or in part, TVA would be allowed to sell this potentially excess generation beyond, if necessary, the 14 interconnected utilities identified in the 1959 amendments to the TVA Act.

Members of the Board, I want to thank you for this opportunity to participate in this hearing and urge your serious consideration of the proposals presented here today, and authorize the CEO of TVA or his representatives to negotiate and execute contractual agreements with the distributors that embrace the points I mentioned. Solutions crafted in the Tennessee Valley will work better to the mutual benefit of all parties than legislated or regulatory solutions crafted in Washington.